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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 000606

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TAGS: ECON EFIN ETRD KPAO OEXC PGOV PREL TW CH
SUBJECT: TAIWAN VICE PREMIER SAYS ECONOMY IMPROVING

Classified By: Classified by AIT Director Stephen M. Young for reasons
1.4 (b) and (d).

Summary and Introduction

¶1. (C) SUMMARY. In a May 18 meeting with Director Young, Vice Premier Paul Chiu said he believes the worst is over for the economy and expects a turnaround by the end of the year. China's stimulus and other efforts directed towards Taiwan could have some positive effect, he stated. Chiu did not reveal plans for long-term structural economic reforms, and implied that any financial sector reforms would happen very slowly. Chiu offered to look into specific cases raised by Director Young regarding cable TV licenses for a U.S. investor and the Fulbright Program. The Director urged Taiwan to move quickly now and fully open its market to US beef. End Summary.

Taiwan Economy - 1Q2009 the Worst

¶2. (C) Although he acknowledged that positive economic growth in 2009 would be "very difficult," the Vice Premier said the first quarter of this year would probably be the worst in terms of economic contraction for Taiwan. He asked rhetorically that with 65% of Taiwan's economy linked to exports and the U.S. and E.U. experiencing the worst economic decline since World War II, how could Taiwan do better? Chiu expected noticeable improvement by the fourth quarter. Taiwan's GDP growth rates are measured by year-on-year comparisons, making it easier for a better number in the fourth quarter of 2009 since Taiwan's economic performance in Q4 2008 was particularly poor.

China Will Have Some Impact

¶3. (C) The Premier stated that China's economic growth and stimulus spending would help Taiwan's economy somewhat, noting that China's stimulus package is far bigger than what other countries are spending. Turning to the possibility of an Economic Cooperation Framework Agreement (ECFA) with China, Chiu acknowledged that Wang Yi, Director of China's Taiwan Affairs Office, raised the issue over the weekend at the PRC-sponsored Straits Forum in Fujian. The Forum launched China's "West Bank Economic Zone" (i.e. the West Bank of the Taiwan Strait) which fans out from Fujian Province and is designed to attract investment and development from Taiwan. Chiu said Taiwan banks might be offered special preferences to set up branches in the

economic zone, but did not know if the terms would be attractive enough to Taiwan banks.

¶4. (C) Turning to possible Chinese investment in Taiwan, Chiu stated that the Ma administration is taking a gradual approach to both opening up portfolio and direct investment in Taiwan to Mainland investors. A number of sectors, he noted, are still closed to these investors.

Any Structural Reforms?

¶5. (C) In response to a question from the Director about seizing the opportunity in the current economic downturn to push economic structural reforms, Chiu acknowledged that much could be done in this area. He said the banking sector would benefit from privatization and consolidation, but emphasized a gradualist approach, stating that the "bribing and misbehavior" that occurred during the second stage of financial reform would have to be dealt with first. (Note: During the Chen administration some privatization and consolidation of the banking sector occurred. There have since been some charges of corruption that occurred during the process. End Note) The authorities are gearing up to do this, he added. He called Taiwan's long term goal to become a regional financial center a "big picture" goal that would be approached gradually.

Congratulations on GPA Accession

¶6. (C) The Director congratulated Chiu on the Legislative Yuan's May 15 ratification of Taiwan's accession to the

TAIPEI 00000606 002 OF 002

Government Procurement Agreement. U.S firms will now be able to compete in Taiwan public spending projects including the large infrastructure projects in the "Ai Taiwan" (Love Taiwan) plan. Taiwan would also be able to participate in the U.S. government procurement market.

A Cable TV License and the Fulbright Program

¶7. (SBU) The Director asked the Vice Premier for assistance in resolving a licensing matter for Kbro, a local cable TV operator owned by the Carlyle Group. The National Communications Commission, Taiwan's broadcast regulator, renewed the licenses of several Kbro-owned cable operators at the end of last year, but attached a number of specific conditions regarding their capital structures. The company has appealed the decisions to the Executive Yuan Appeals Committee, which according to Taiwan law, should have issued a ruling several weeks ago. The Director noted that the Deputy Director had already raised the case with Minister-without-portfolio Kao Su-po, who in turn suggested that the case be raised with the Vice Premier. Vice Premier Chiu offered to check into the status of the case. The Director stated that AIT is not trying to influence the outcome of the case, but hopes the EY would provide a timely response to the firm as required by law.

¶8. (SBU) Also in the meeting, when queried about the long-awaited Taiwan response to AIT/W's May 2008 letter requesting clarification of the legal status of the Foundation for Scholarly Exchange (Taiwan's Fulbright foundation), the Vice Premier said he has assigned this issue to Minister without Portfolio (and a former Minister of Education) Ovid Tseng. Chiu said he would raise the issue with Tseng. Chiu is a former Fulbright grantee and a former member of the Taiwan Fulbright office's board of directors.

And, of Course, Beef

¶9. (C) The Director said he understood Taiwan was close to an opening of its market to U.S. beef. He reiterated U.S. interest in the prompt opening of Taiwan's market to the full range of U.S. beef imports, noting that this would bring Taiwan into OIE compliance on this matter and would help to

break the logjam on the broader U.S.-Taiwan trade relationship.

Comment:

¶10. (C) The Vice Premier, who has a strong background in economics and finance, was vague about any efforts at long-term economic reform. This may be an indication that political realities as perceived by the administration dictate that now is not the time for ambitious reforms beyond the liberalization of cross-Strait restrictions.

YOUNG